



U.S. DEPARTMENT OF  
TRANSPORTATION

Office of the Secretary  
of Transportation

# ORDER

DOT 2300.6E

AUG - 7 2003

Subject: VOLPE NATIONAL TRANSPORTATION SYSTEMS CENTER  
INDIRECT COST POLICIES

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1. PURPOSE. This Order revises policies to govern: (a) the indirect costs incurred by the Volpe National Transportation Systems Center (Volpe Center); (b) the manner of allocating such costs to sponsored projects; and (c) approval of the Volpe Center indirect cost budgets.
  2. CANCELLATION. DOT 2300.613, Transportation Systems Center Indirect Cost Policies, of 7-16-93.
  3. REFERENCES.
    - a) Title 49 U.S.C. 328, establishes a Working Capital Fund for financing the activities of the Transportation Systems Center. Title 49 U.S.C. 328(d) (1) authorizes the fund to recover the expenses of the Center's operations, including "overhead" (indirect costs as defined in this Order).
    - b) DOT 2300.2A, Administration of the Working Capital Fund, Transportation Systems Center, of 8-26-82.
    - c) DOT 2700.811, Accounting Principles and Standards, of 6-13-78, establishes uniform accounting principles and standards for the Department of Transportation (DOT).
  4. BACKGROUND.
    - a) The Volpe Center operates financially by means of a Working Capital Fund (WCF) established by Congress (see paragraph 3a). Operating funds are derived from advances made into the fund by sponsoring organizations (operating administrations, secretarial offices, or Bureau of Transportation statistics (BTS) within DOT, other Federal agencies, state and local governments or the private sector). This is the only source of financing available to the Volpe Center for operating costs and capital expenditures that do not require appropriations.
    - b) Costs incurred by the Volpe Center are charged to sponsored projects as follows: (1) direct costs that are specifically identifiable with the projects; and (2) indirect costs.

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Distribution: All Secretarial Offices  
All Operating Administrations  
Bureau of Transportation Statistics

OPI: RSPA/Volpe  
Transportation  
Systems Center

5. DEFINITION OF INDIRECT COSTS. For the purpose of this Order, indirect costs (equivalent to "overhead" as this term is used in 49'7J.S.C. 328(d) (1) are: defined as costs incurred by the Volpe Center under the WCF which are not directly identifiable with sponsored projects, or where making such identification would not be cost-effective. Indirect costs include: administrative support, supervision, management, and management oversight by the Research and Special Programs Administration (RSPA); planning, training, and capability development of a general nature rather than that required for specific, sponsored projects; standby time; quick-reaction, advisory assistance to the Secretary, Deputy Secretary and the RSPA Administrator; participation in departmental committees and task forces which are not directly related to sponsored projects; capital improvements that do not require appropriations; facility maintenance and operations; and general purpose equipment, software, or other property acquired or modified for general institutional capability and support.
6. POLICY. The following general policies shall govern the determination and allocation of indirect costs to specific projects authorized by sponsors.
- a) Indirect costs shall not be used as a means of financing or supplementing the financing of any research or technical activities properly funded by a sponsor.
  - b) Indirect costs shall be allocated on a fair and equitable basis, so that each sponsor is charged a proportionate share of indirect costs in relation to the benefits received.
  - c) Indirect costs shall be allocated to all sponsored projects using either direct labor, or a combination of direct labor and fiscal year obligations, as the base(s) for distribution as follows: (See Attachment 1 for a comparison of the different methods.)
    - 1 **Single Allocation Base.** All indirect costs, except for project-related space and telecommunications, will be allocated using direct labor as the distribution base. Indirect costs will be allocated as a percentage of direct salaries and benefits.

- 2 **Combination Allocation Bases.** Indirect costs will be split into two cost pools and allocated as:

- (a) **Project Overhead.** Indirect costs incurred primarily in support of direct projects, such as space used by the project, communications costs related to the project, the indirect portion of line management's salaries and benefits, and other project-related indirect costs. Project overhead will be allocated as a percentage of direct salaries and benefits.
  - (b) **General and Administrative (G&A).** Indirect costs incurred for the general management and administration of the Volpe Center as a whole. These costs, which do not have a direct relationship to project activities, include salaries and benefits of the Volpe Center Director and his or her staff, administrative support activities, facility operations, and capital maintenance. The G&A costs will be recovered as a percentage of total direct obligations.
- d) After analyzing the projected workload mix for the next fiscal year, the Volpe Center will select the most appropriate of the foregoing allocation methods to distribute indirect costs. Only one method will be used during a fiscal year to distribute indirect costs to all projects. Sponsors will be advised prior to the start of each fiscal year which method will be used.
- e) Uniform indirect cost rates shall be applied to all sponsored projects, however, the Volpe Center is authorized to establish: (1) a reduced rate for off-site operations; and (2) a higher rate for unique sponsor support or management requirements that should not be included in the general indirect cost rate(s) charged to all sponsors.
- f) The rate(s) shall be adjusted as necessary during the fiscal year, to maintain a close relationship between planned and actual expenses. At the end of each fiscal year, to the extent practicable, cost distributions shall be adjusted to agree with actual costs incurred.

## 7. INDIRECT COST BUDGETS.

### a) Risk Mitigation Account.

1. Beginning in FY2003, up to six percent (6%) of the net project overhead budgeted by the Volpe Center each fiscal year may be set aside in a Risk Mitigation Account (RMA) within the Volpe Center's overhead account. RMA funds will hereafter be available to pay costs the Volpe Center incurs for its direct labor and contract support to correct management and/or oversight deficiencies with regard to a project and where it would not be proper to charge such costs to the project's sponsor. (No overhead will be charged on RMA expenditures.) The percentage of indirect cost obligations to be placed in the RMA each fiscal year will be established at the start of each fiscal year as part of the Volpe Center's annual overhead budget review/approval process. Amounts in the RMA may be carried forward from year to year as the Research and Special Programs Administration (RSPA) Administrator determines necessary to the needs of the Volpe Center's working capital fund, provided that not more than \$2.5 million may be carried forward within the RMA into the next fiscal year.
2. Each proposed use of RMA funds shall be supported by a written determination, to be approved by the RSPA Administrator, that: identifies the sponsored project; describes the management and/or oversight deficiency justifying the application of RMA funds; presents the actions to be taken to address the deficiency, the estimated amount to be funded from the RMA and other parties, and the basis for the estimate; and, describes the action(s) Volpe Center management will undertake to assure that the deficiency will not recur.
3. Any expenditure from the RMA must be approved in advance by the RSPA Administrator after consultation with the Department's Chief Financial Officer.

*Vertical line denotes change*

- b) The annual Volpe Center indirect cost budget shall be submitted to the RSPA Administrator for review and approval. The RSPA Administrator will advise the operating administrations, the BTS, and the Assistant Secretary for Administration of the approved indirect cost rate(s), and the base(s) to which the rate(s) will apply.
  - c) The indirect cost budget shall be presented in a form, which discloses planned obligations by summary cost elements, together with supporting detail and an explanation of significant items and trends. It shall also identify any acquisitions or modifications of property that must be capitalized under the requirement of DOT 2700.8A, Accounting Principles and Standards, and the approved accounting system design for the Volpe Center. It shall also include an analysis of the indirect cost rate(s) that will be applied to sponsored projects.
  - d) The Volpe Center shall submit to the RSPA Administrator a quarterly report of actual indirect costs incurred compared with the approved budget. The report will include a separate account for the accumulation of expense for standby time.
8. IMPLEMENTATION. Where appropriate, secretarial offices, operating administrations, and BTS shall develop additional guidance required to implement this Order and provide a copy of that guidance to the Volpe National Transportation Systems Center, RSPA, within six months of the date of this Order.



A handwritten signature in black ink, appearing to read 'S. G. Bonasso'.

Samuel G. Bonasso  
Acting Administrator, RSPA

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COMPARISON OF SINGLE  
AND  
COMBINATION INDIRECT COST ALLOCATION BASES

The following examples illustrate how indirect costs would be recovered under the single recovery base concept and under the combination bases concept as described in the Order<sup>1</sup>. Because indirect recoveries by a program vary in proportion to the ratio of salaries and benefits to total obligations, Case A illustrates recoveries for a labor-intensive program and Case B for a minimum labor program. The rates<sup>2</sup> for the Single Base and Combination Bases examples are:

<u>Bases</u>	Single Base (SB)	Combination (CB)
Overhead Charge to Salaries and Benefits	78%	33%
General and Administrative (G&A) Charge to Total Obligations	0%	8%

Actual obligations for the two cases and the two recovery bases would be as follows for a \$400K program.

<u>Project Charge</u>	Case A (Labor Intensive)		Case B (Minimum Labor)	
	<u>SB</u>	<u>CB</u>	<u>SB</u>	<u>CB</u>
Salaries & Benefits (SB)	\$169K	\$169K	\$42K	\$42K
Overhead (OH)	131	56	33	14
Total SB&OH	300	225	75	56
Other Direct Obligations				
Obligations before G&A	<u>100<sup>3</sup></u> 400	<u>98<sup>3</sup></u> 323	<u>325<sup>3</sup></u> 400	<u>319<sup>3</sup></u> 375
General & Administrative				
Total Obligations	<u>0</u> \$400K	<u>26</u> \$349K	<u>0</u> \$400K	<u>30</u> \$405K

<sup>1</sup> The recovery option selected by the Volpe Center will be uniformly applied to all customers.

<sup>2</sup> Sample rates based on the Volpe Center's FY 1992 indirect budget and projected total obligations. Project size is representative for that year.

<sup>3</sup> A small portion of obligations classified as direct in the Single Base option would be recovered as Overhead in the Combination Bases option, e.g., programmatic space and telecommunications costs and the OMNI contract administrative surcharge.